

**SUMMARY REPORT PURSUANT TO
CALIFORNIA GOVERNMENT CODE SECTION 53083
ON A
HOTEL DEVELOPMENT INCENTIVE AGREEMENT
BY AND BETWEEN
THE CITY OF LOS ANGELES
AND
LIGHTSTONE, DTLA LLC.**

The following Summary Report has been prepared pursuant to California Government Code Section 53083. The report sets forth certain details of the proposed Hotel Development Incentive Agreement (Agreement) between the following parties:

1. The City of Los Angeles (City), a municipal corporation;
2. Lightstone DTLA LLC, a Delaware limited liability corporation (Developer).

The Agreement requires the City to provide a development incentive to the Developer for the purpose of constructing a hotel. The project is located on a 1.22-acre foot site located at 1240-1260 S. Figueroa Street and 601 W. Pico Street in the City of Los Angeles (Site). The project will consist of building two hotel towers, with a total of 1,130 hotel rooms (Project).

This summary report considers only the proposed Agreement. The purpose of this Agreement is to effectuate economic development in the City.

The following Summary Report is based upon the information contained within the Agreement, and is organized into the following six sections:

- I. Identity of the Developer:** This section provides the name and address of the Developer.
- II. Salient Points of the Agreement:** This section summarizes the major responsibilities imposed on the Developer and the City by the Agreement.
- III. Economic Incentives Provided and Cost of the Agreement:** This section details the economic incentives provided and the costs incurred by the City to implement the Agreement.
- IV. Consideration Received and Comparison with the Economic Incentives Provided:** This section describes the financial compensation to be received by the City.
- V. Creation of Economic Opportunity and Public Purpose:** This section explains how the Agreement will assist in creating economic opportunity in the City.

VI. Job Creation: This section describes the number of full-time, part-time and temporary jobs created under the Agreement.

This report and the Agreement are to be made available for public inspection prior to the approval of the Agreement.

I. IDENTITY OF DEVELOPER

Information on the Developer is provided below:

Lightstone, DTLA LLC.

Lightstone DTLA LLC
c/o The Lightstone Group
460 Park Avenue
New York, NY 10022

II. SALIENT POINTS OF THE AGREEMENT

A. Project Description

The Site was previously used as a parking lot and commercial retail development. The Developer is acquiring the property and will be constructing a 1,130-room hotel project on the Site. The proposed Project will include the following:

1. 1,130 hotel rooms in two towers
2. 17,200 square feet of leased commercial space
3. Lobby lounge and dining area
4. Meeting and pre-function space
5. Convenience/sundry stores
6. Fitness rooms
7. Outdoor pools

The Project includes two hotels in Tower A/B, which has 820 guestrooms (both hotels have 410 rooms) in 41 stories and one hotel in Tower C, which includes 310 guestrooms in 26 stories. The Project will be built to a minimum three-star quality level. Total costs of the improvements are estimated at approximately \$454.2 million.

B. The Start and End Dates (Term) and Schedule

Start Date: August 2018

End Date: August 2021

C. Developer Responsibilities

The Agreement requires the Developer to accept the following responsibilities:

1. Construction and maintenance of the Project in accordance with the standards set forth in the Agreements;
2. The Hotel Brand obtaining and maintaining the Three-Diamond Rating for the hotels;
3. That the applicable Hotel Tower and all related Improvements have been constructed in accordance with state and federal accessibility laws, standards, codes, and regulations.
4. The Developer's continued compliance in all material respects with the City's Community Benefits Program;
5. The Hotel Brand's continued compliance in all material respects with the Hotel Operating Covenant with respect to each hotel;
6. Collection and remittance of all City taxes at the Project Site that are due and payable by Developer and not delinquent;
7. Developer shall execute and require the Hotel Operator and each business at the Project to execute a valid Tax Confidentiality Waiver;
8. Developer and Hotel Operator shall comply with the Room Block Agreements;
9. Developer shall cause the Hotel Operator to comply with all applicable provisions of the Agreement;
10. The Developer shall ensure that the Hotel Project will be operated, furnished, serviced, maintained, and refurbished to at least the standard of quality of a Three Diamond Rating for the duration of the City Financial Assistance Term;
11. Developer shall insert a contract provision in its contract with the general contractor requiring the general contractor and its major subcontractors to designate the City of Los Angeles as the place of use of any materials purchased for the development of the Hotel Project; and
12. The Developer hereby agrees that prior to completion of construction of the Hotel Project, the Hotel Site shall be maintained in a neat and orderly condition to the extent practicable and in accordance with applicable industry health and safety standards, and

that the Hotel Project shall be well maintained as to both external and internal appearance of the buildings, the common areas, and the parking areas consistent with the standards associated with a Three Diamond Rating.

D. City Responsibilities

The Agreement imposes the following responsibilities on the City:

1. The City shall disburse the Hotel Incentive Payments from the Special Fund to the Developer, in arrears on a semi-annual basis (i.e., on each successive six (6)-month anniversary of the Hotel A/B Tower Completion Date) and in the form of a confirmed wire transfer of funds, until the earlier of such time as (i) the Maximum Hotel Incentive Amount has been fully paid to the Developer or (ii) the City Financial Assistance Term has expired or earlier terminated in accordance with the terms hereunder;
2. The City shall disburse to the Developer an amount equal to one hundred percent (100%) of the Transient Occupancy Tax from the Hotel as received by the City in the applicable payment period;
3. The City will utilize Transient Occupancy Tax revenues from the Hotel Project solely to determine the amount of each Hotel Incentive Payment and that no provision of this Agreement is intended to or shall be deemed to be, a designation of any Transient Occupancy Tax revenues for any purpose other than the deposit of such tax revenues into the City's General Fund;
4. Upon completion of the Hotel A/B Tower Project Cost Reconciliation, the final Maximum Hotel Incentive Amount with respect to the Hotel A/B Tower shall be established, which amount shall in no event exceed Forty-Eight Million Five Hundred Twenty-Eight Thousand Dollars (\$48,528,000) in net present value back to the Hotel A/B Tower Completion Date, discounted at the rate of ten percent (10%). Upon completion of the Hotel C Tower Project Cost Reconciliation, the final Maximum Hotel Incentive Amount with respect to the Hotel C Tower shall be established, which amount shall in no event exceed Eighteen Million Eight Hundred Seventy-Two Thousand Dollars (\$18,872,000) in net present value back to the Hotel A/B Tower Completion Date, discounted at the rate of ten percent (10%); and
5. The City shall have timely performed all of the obligations required by the terms of the Agreement.

III. ECONOMIC INCENTIVES PROVIDED AND COST OF THE AGREEMENT

The City is making economic incentive payments to facilitate the development of the Project and the operation of the hotel. The cost to be incurred by the City is capped at a net present value of \$67.4 million (Tower A/B = \$48,528,000 plus Tower C = \$18,872,000) assuming a discount rate of 10%. The payments will be made over a period of up to 25 years from 100% of the transient occupancy tax revenues generated by the Project.

IV. CONSIDERATION RECEIVED AND COMPARISON WITH THE ECONOMIC INCENTIVES PROVIDED

The City expects to receive a significant increase in transient occupancy tax, property tax, sales tax, gross receipts tax, utility tax and parking tax from the development of the Project. The detailed projections for the Project are summarized in Keyser Marston Associates' *Pico & Figueroa Hotels – Financial Feasibility, Public Revenue and Employment Analysis* that was submitted to the City in November 2017. Table 1 shows the projected City revenues generated by the Project over the term of the Agreement. The revenues are summarized below:

1. Transient Occupancy Tax (TOT) – The current City TOT rate is 14% of room revenues. The two 410-room hotels in Tower A/B are projected to have an stabilized Average Daily Rate (ADR) of \$240 and \$225 and an occupancy rate that stabilizes at 78.0%. The 310-room hotel in Tower C is projected to have a \$235 ADR with a 78% stabilized occupancy level. At this level of performance, the Project will generate \$409.2 million in TOT over the Agreement term. Assuming a 10% discount rate, the net present value of this revenue is \$131.0 million.
2. Property Tax – Within the Site's Tax Rate Area, the City receives 26.3% of the general property tax levy of 1.0% of assessed value, with the balance of the collected property taxes going to other taxing jurisdictions. The assessed value of the Project is estimated at \$454.2 million. At this level of value, the Project will generate \$41.2 million in property tax over the Agreement Term. Assuming a 10% discount rate, the net present value of this revenue is \$14.8 million.
3. On-Site Sales Tax – The City receives 1.0% of the taxable sales generated by the Project, with the balance of the sales tax going to other taxing jurisdictions. The select service hotels will generate modest sales; however, the Project also includes 17,200 square feet of commercial space. The sales in these stores and the taxable revenues from the hotels will generate sales tax, which is projected at \$6.3 million over the Agreement Term. Assuming a 10% discount rate, the net present value of this revenue is \$2.3 million.
4. Gross Receipts, Utility User Tax and Parking Taxes – The Project will also generate revenue to the City from taxes on its total gross receipts, utility utilization (electric, natural gas and telephone) and charged parking. The revenue generated from these sources is projected to create \$37.8 million in taxes to the City over the Agreement Term. Assuming a 10% discount rate, the net present value of this revenue is \$12.2 million.

Over the course of the Agreement Term, the Project is projected to generate \$494.5 million in gross revenue to the City, with a net present value of \$160.3 million.

The gross revenues generated by the Project are off-set by the existing revenues generated on the Site and the City's Assistance. The net revenues received by the City are shown in Table 2. As of the fiscal year 2016-17, the City received \$170,000 in revenue from the Site. Over the Agreement Term these revenues total \$6.3 million. Therefore, the Project is projected to generate \$488.2 million (\$158.0 million NPV) in additional revenues to the City over the Agreement Term.

Per the Agreement, the City's Assistance is limited to a net present value of \$67.4 million, with the City making annual payments to the Developer out of 100% of the available TOT over a term of up to 25 years. The payments made by the City are discounted at an interest rate of 10% per annum. As shown in Table 2, the payments to the Developer are projected to cease in Year 8 of Project operations (assuming the simultaneous opening of both hotel towers). At this point in time the Developer will have received \$103.3 million in assistance, which has a net present value of \$67.4 million. As shown in Table 2, the net revenue to the City after the payment of the assistance to the Developer is \$384.8 million, which has a net present value of \$90.6 million.

V. CREATION OF ECONOMIC OPPORTUNITY AND PUBLIC PURPOSE

The Los Angeles City Council has determined that encouraging economic development, including private investment that involves creation of new jobs and income in the City, or the retention of existing jobs and income that would otherwise be lost or be unavailable to the residents of the City, is a valid exercise of its powers and provides an important public benefit and serves an important public purpose. By authorizing the City to enter into this Agreement, the City Council has determined that the benefits accruing as a result of the transactions contemplated by this Agreement, including, without limitation, (i) direct benefits such as the increase in Three-Diamond hotel rooms near the Los Angeles Convention Center and potentially increasing the number of conventions in the City); (ii) increased revenues from property, sales, parking, gross receipts, utility and TOT taxes, (iii) enhanced economic opportunities generated by the development of a new hotel serving downtown Los Angeles, and (iv) the provision of infrastructure to the City of Los Angeles, together with the Developer's obligations under the Community Benefits Plan included in the Agreement represent fair consideration for all of the obligations to be undertaken by the City as contemplated in the Agreement.

Other important goals and objectives that are satisfied by the Project are:

1. Construction of the Project is expected to generate a substantial numbers of construction jobs.
2. Potential increase in private investment as a result of the public investment in this Project.

3. Increased number of visitors to the City, which will spend money on dining, retail and entertainment activities in the City.
4. The surface parking lot on the Site does not reflect its highest and best economic use.

VI. JOB CREATION

The Project is projected to create the following number of temporary jobs during construction, and full-time and part-time jobs during operation. It is estimated that 3,190 temporary construction jobs (direct, indirect and induced) will be created during the construction period. After opening the Developer and their consultant (CBRE Hotels) indicate the Project will support 754 total full-time jobs in the hotels. An additional 50 jobs is projected for the leased commercial of which 35 are projected to be full-time and 15 part-time.

TABLE 1

**PUBLIC REVENUES PROJECTIONS
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA**

Project Year		Transient Occupancy Tax ¹	City Share of Property Tax ²	On-Site Sales Tax ³	Gross Receipts Tax ⁴	Utility User Tax ⁵	Parking Tax ⁶	Gross Public Revenues
Const.	2017 -18	-	-	-	-	-	-	-
Const.	2018 -19	-	\$597,000	\$205,000	\$165,000	-	-	967,000
Const.	2019 -20	-	1,206,000	205,000	165,000	-	-	1,576,000
1	2020 -21	\$10,401,000	1,230,000	155,000	146,000	\$238,000	\$534,000	12,704,000
2	2021 -22	11,600,000	1,254,000	166,000	161,000	276,000	595,000	14,052,000
3	2022 -23	12,558,000	1,279,000	176,000	174,000	300,000	644,000	15,131,000
4	2023 -24	12,919,000	1,305,000	181,000	180,000	325,000	663,000	15,573,000
5	2024 -25	13,307,000	1,331,000	186,000	185,000	335,000	683,000	16,027,000
6	2025 -26	13,640,000	1,358,000	192,000	188,000	345,000	700,000	16,423,000
7	2026 -27	13,980,000	1,385,000	197,000	194,000	355,000	717,000	16,828,000
8	2027 -28	14,331,000	1,413,000	202,000	199,000	366,000	735,000	17,246,000
9	2028 -29	14,689,000	1,441,000	208,000	203,000	377,000	754,000	17,672,000
10	2029 -30	15,056,000	1,470,000	213,000	209,000	388,000	773,000	18,109,000
11	2030 -31	15,432,000	1,499,000	219,000	214,000	400,000	792,000	18,556,000
12	2031 -32	15,818,000	1,529,000	225,000	220,000	412,000	812,000	19,016,000
13	2032 -33	16,214,000	1,560,000	231,000	225,000	424,000	832,000	19,486,000
14	2033 -34	16,618,000	1,591,000	238,000	231,000	437,000	853,000	19,968,000
15	2034 -35	17,034,000	1,623,000	244,000	237,000	450,000	874,000	20,462,000
16	2035 -36	17,460,000	1,655,000	251,000	242,000	464,000	896,000	20,968,000
17	2036 -37	17,897,000	1,688,000	258,000	250,000	478,000	918,000	21,489,000
18	2037 -38	18,344,000	1,722,000	265,000	256,000	492,000	941,000	22,020,000
19	2038 -39	18,803,000	1,756,000	272,000	262,000	507,000	965,000	22,565,000
20	2039 -40	19,273,000	1,792,000	280,000	268,000	522,000	989,000	23,124,000
21	2040 -41	19,755,000	1,827,000	287,000	275,000	538,000	1,014,000	23,696,000
22	2041 -42	20,249,000	1,864,000	295,000	282,000	554,000	1,039,000	24,283,000
23	2042 -43	20,755,000	1,901,000	303,000	290,000	571,000	1,065,000	24,885,000
24	2043 -44	21,274,000	1,939,000	311,000	296,000	588,000	1,092,000	25,500,000
25	2044 -45	21,806,000	1,978,000	320,000	305,000	606,000	1,119,000	26,134,000
25 Year Term								
Nominal Total		\$409,213,000	\$41,193,000	\$6,285,000	\$6,022,000	\$10,748,000	\$20,999,000	\$494,460,000
Net Present Value @ 10%		\$130,983,000	\$14,847,000	\$2,279,000	\$2,151,000	\$3,339,000	\$6,721,000	\$160,320,000

TABLE 2

**NET NEW PUBLIC REVENUES
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA**

Project Year	Gross Public Revenues	(Less) Annual Base Period Amount ¹	Net New City Revenues	50% of Net New City Revenues	Assistance Payments @ 100% TOT Revenues	Net New City Revenues After Subsidy
Const. 2017 -18	-	-	-	-	-	-
Const. 2018 -19	\$967,000	(\$174,000)	\$793,000	\$397,000	-	\$793,000
Const. 2019 -20	1,576,000	(178,000)	1,398,000	699,000	-	1,398,000
1 2020 -21	12,704,000	(182,000)	12,522,000	6,261,000	10,401,000	2,121,000
2 2021 -22	14,052,000	(186,000)	13,866,000	6,933,000	11,600,000	2,266,000
3 2022 -23	15,131,000	(190,000)	14,941,000	7,471,000	12,558,000	2,383,000
4 2023 -24	15,573,000	(194,000)	15,379,000	7,690,000	12,919,000	2,460,000
5 2024 -25	16,027,000	(198,000)	15,829,000	7,915,000	13,307,000	2,522,000
6 2025 -26	16,423,000	(202,000)	16,221,000	8,111,000	13,640,000	2,581,000
7 2026 -27	16,828,000	(206,000)	16,622,000	8,311,000	13,980,000	2,642,000
8 2027 -28	17,246,000	(211,000)	17,035,000	8,518,000	14,938,524	2,096,476
9 2028 -29	17,672,000	(216,000)	17,456,000	8,728,000	-	17,456,000
10 2029 -30	18,109,000	(221,000)	17,888,000	8,944,000	-	17,888,000
11 2030 -31	18,556,000	(226,000)	18,330,000	9,165,000	-	18,330,000
12 2031 -32	19,016,000	(231,000)	18,785,000	9,393,000	-	18,785,000
13 2032 -33	19,486,000	(236,000)	19,250,000	9,625,000	-	19,250,000
14 2033 -34	19,968,000	(241,000)	19,727,000	9,864,000	-	19,727,000
15 2034 -35	20,462,000	(246,000)	20,216,000	10,108,000	-	20,216,000
16 2035 -36	20,968,000	(251,000)	20,717,000	10,359,000	-	20,717,000
17 2036 -37	21,489,000	(256,000)	21,233,000	10,617,000	-	21,233,000
18 2037 -38	22,020,000	(261,000)	21,759,000	10,880,000	-	21,759,000
19 2038 -39	22,565,000	(266,000)	22,299,000	11,150,000	-	22,299,000
20 2039 -40	23,124,000	(272,000)	22,852,000	11,426,000	-	22,852,000
21 2040 -41	23,696,000	(278,000)	23,418,000	11,709,000	-	23,418,000
22 2041 -42	24,283,000	(284,000)	23,999,000	12,000,000	-	23,999,000
23 2042 -43	24,885,000	(290,000)	24,595,000	12,298,000	-	24,595,000
24 2043 -44	25,500,000	(296,000)	25,204,000	12,602,000	-	25,204,000
25 2044 -45	26,134,000	(302,000)	25,832,000	12,916,000	-	25,832,000
25 Year Term						
Nominal Total	\$494,460,000	(\$6,294,000)	\$488,166,000	\$244,090,000	\$103,343,524	\$384,822,476
NPV @ 10%	\$160,320,000	(\$2,307,000)	\$158,013,000	\$79,010,000	\$67,406,000	\$90,607,000

¹ Based on estimates provided by City.